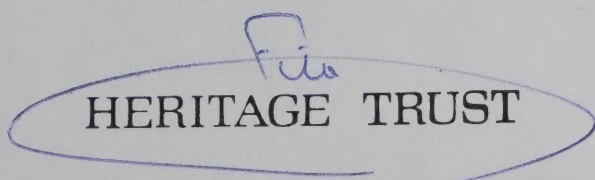
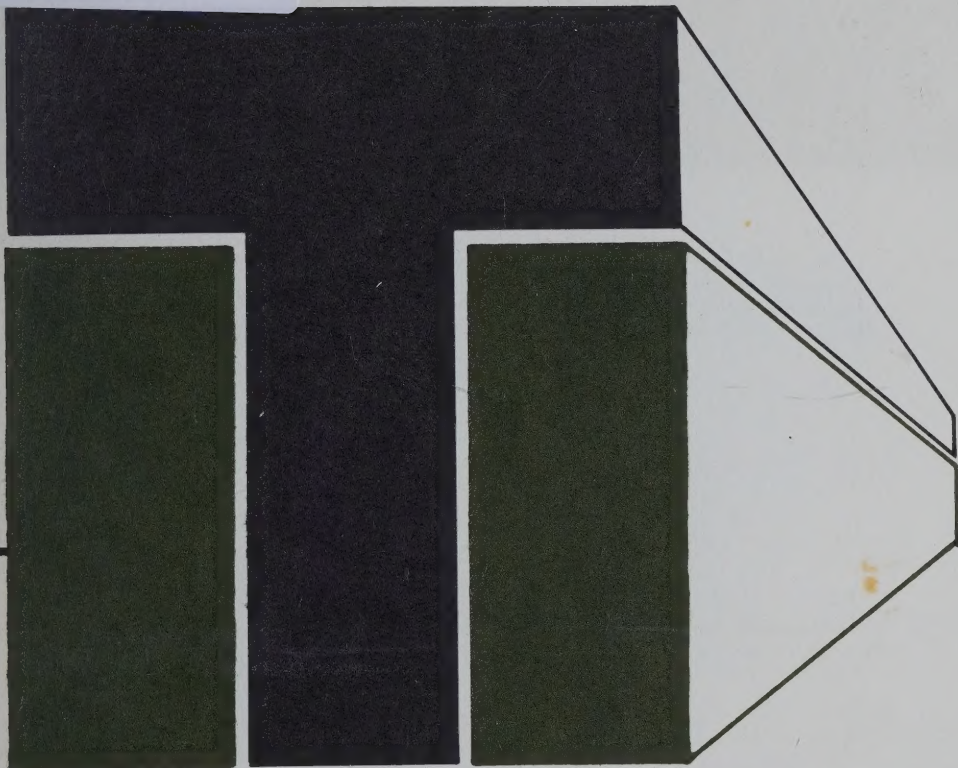


AR14



9th ANNUAL REPORT - 1976



The Ninth Annual Meeting of the shareholders will be held May 4th, 1977 at the Norwood Legion in Edmonton, Alberta.

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Board of Directors

DIRECTORS

Peter Albrecht
President — Moler System of Schools
J. F. Gulayets
President — Star Agencies (Insce) Ltd.
P.M. Kule, C.A.
Partner — Kule, Peach & Co.
Z. R. Matishak, C.A.
Partner — Johnson, Rickard & Co.
Peter Savaryn, B.A., LL.B.
Barrister & Solicitor
Samuel Sereda, M.Sc.
Secretary — Sereda Drugs Ltd.
P. N. (Pat) Shewchuk, B.A., LL.B.
Barrister & Solicitor

Walter Bilinske
President — Walt's Men's Wear Ltd.
Nicholas Hannas
President — Hannas Seeds Ltd.
W. W. Maday, B.Sc.
Pharmacist
Demitro Melnyk, B.Sc., M.D.
Physician
M. M. Sereda, M.D.
Physician
William Sereda, B.Sc.
President — Sereda Drugs Ltd.
John Grotski, B.Sc., LL.B.
Barrister & Solicitor

EXECUTIVE OFFICERS

William Sereda
President
Peter Savaryn
Secretary

P. N. (Pat) Shewchuk
Vice President
Z. R. Matishak
Treasurer

MANAGEMENT

Gordon Conway
General Manager
W. N. Howie
Mortgage Manager
Anna M. Sirman
Kingsway Garden Mall Manager

R. L. Knutson
Controller
J. S. Davediuk
Trust Manager
W. J. Wiebe
Main Branch Manager

Alex Stuart
Real Estate Manager

CORPORATE INFORMATION

Main Office
10166 - 100 Street, Edmonton, Alberta

Branch & Real Estate Offices
192, Kingsway Garden Mall, Edmonton, Alberta

Auditors
W. J. Baziuk & Company, Chartered Accountants

Solicitors
Wachowich & Company, Barristers & Solicitors



Directors' Report

THE PAST YEAR

Continuing high interest rates prevailed for most of 1976 until the month of December when the Bank of Canada finally reduced its prime rate. The high rates continued to apply pressure on our trust company, particularly in the area of short term funds. The difference in interest paid to depositors and received from investments and loans was prohibitively low. There was an improvement though, in the margin on longer term funds. Substantial increases in the lending out of mortgage funds for five year terms, together with a large number of renewals of existing mortgages at higher rates, resulted in a marked improvement in the difference between cost and return on money. From December 31, 1974 to December 31, 1976 this "spread" rose from \$1.49 to \$1.99 per \$100.00 of assets.

Total assets under administration as at the year end reached \$32,611,636 an increase of 38.4%.

EARNINGS

Our Company's 1976 earnings after taxes reached a record \$190,912, a 75% increase over 1975. This improvement came about in spite of the substantial expense of opening our Kingsway Garden Mall branch plus the additional cost of underwriting our real estate operation for another year. Gross income of our Company grew to \$2.6 million as compared to \$1.6 million in 1975. Administrative expenditures at the same time were held down to an increase of 8.2% and only the cost of establishing and operating our Kingsway Garden Mall branch prevented the Company from showing a record performance on a per share basis also. Earnings per share did improve substantially over the previous year reaching \$1.04 compared to .59c in 1975.

GUARANTEED FUNDS

The growth of our guaranteed funds section has continued to progress at a desirable rate. Total funds increased by \$8,237,037, an improvement of 47.8%. Last year the section increased by \$5,484,417 or 45.7%. A continuation of this rate of growth for the next few years is certainly an objective of your Board. The fund that has shown the greatest improvement in the past two years is our Deposit Receipts which increased by 82.8% in 1976.

MORTGAGE LOANS

Our Company's major source of income is the interest it earns on mortgage loans. At the end of 1976 a total of \$18,501,738 is invested into mortgages amounting to 72.2% of our total guaranteed funds. These mortgages produced a gross \$1,777,709 in interest in 1976 as compared to \$1,017,760 in 1975. We are particularly pleased with the general quality of our mortgage loans and the growth we have experienced in this area. The average yield on these mortgages at the end of 1976 was 11.64% while in December 1975 it had been 10.90%.

LIQUIDITY

Your Board and management are recommending an amendment to the By-laws which if passed will allow our Company to borrow money to meet short term funds requirements. The net result would be access to immediate funds without the delay of 3 to 5 days which is normally required on the sale of bonds, and without the accompanying potential losses of principal and/or interest that is always a threat. A survey of other trust companies indicates the vast majority have been taking advantage of similar borrowing powers for some time.



Directors' Report (cont'd)

LEGISLATION

Two different proposals currently face the Company as a result of Federal plans. One is the proposed amendments to the Bank Act, which would place trust companies under the control of the Bank of Canada similar to that of Canada's chartered banks, and the other is a proposed Borrowers and Depositors Protection Act which is intended to make it easier for the public to determine the interest rates they are receiving or paying.

The only problem we can visualize with regard to the Bank Act amendments is that our Company will have to deposit interest free funds with the Bank of Canada. As we already have Provincial reserve regulations that result in low interest earnings on a portion of our funds, the second requirement could be unnecessarily costly.

The Borrowers and Depositors Protection Act proposes that payout penalties be reduced on mortgages and removed after three years of the term having expired. This means that a borrower with a high interest rate would be able to pay off his mortgage and find less expensive money elsewhere. Although this is commendable from a borrower's point of view, a trust company on the other hand could find itself in a very difficult and risky position. Guaranteed Investment Certificates are also sold by trust companies on a 5 year basis. The inability to redeem these certificates while high yielding mortgages are being paid off could result in a company being forced to invest money at rates lower than that being paid. Many financial organizations including our own have expressed their concerns to the Government in this connection and it is hoped that a suitable alternative can be worked out which would be beneficial to the borrowing public without jeopardizing a Company's lending ability.

REAL ESTATE DEPARTMENT

To reduce the cost of operating this department our Company's branch in the north-west end of Edmonton was closed. The remaining staff and our new manager, Alex Stuart, were installed in the Kingsway Garden Mall Branch. Due to leases for real estate operations being substantially less expensive than they are for trust companies, it was possible to negotiate a better lease as a result of this move. Mr. Stuart, with over 25 years experience in the real estate field, mostly as an owner-manager, has been able to put together a team of 10 salesmen who total in excess of 90 years in real estate experience.

REVENUE

Mortgage Interest	67.8%
Bond Interest	15.3%
Other Loans	1.4%
Trust Fees	1.2%
Gains on Sales	3.0%
Dividend Income	2.6%
Commissions	2.1%
Other	6.6%

MORTGAGE LOANS

Residential	63.8%
Apartments	21.7%
Commercial	9.8%
Industrial	1.8%
Other	2.9%



Directors' Report (cont'd)

SUBSIDIARY

Herco Developments Ltd. was incorporated in 1971 with the objective of participating in the development, investment and management of income producing real estate ventures. As previously reported, Herco is half owner in a 20-suite and a 40-suite apartment. Both these investments are producing excellent revenue, are well located and are seldom in need of tenants. The other investments held by Herco are the land and building in which our offices are located plus 3/5ths of the 50' by 150' lot immediately west of the office building. Once the proposed development of an office building is completed and the Company's cash flow increased, participation in industrial, commercial and residential investments will be continued. A separate statement showing earnings and balance sheet of Herco is included with this year's Annual Report.

ADMINISTRATIVE EXPENSES

Director's Fees	5.4%
Printing & Supplies	5.4%
Commissions Paid	7.2%
Furniture & Improvements	3.3%
Data Processing	1.6%
Advertising	9.1%
Rent	9.1%
Salaries	42.1%
Other	16.8%

STAFF

The organizing of Kingsway Garden Mall branch was a trying time for both the branch staff and the people at the main office. Many found it necessary to work extra hours and others had to let their work fall behind while they assisted where the pressure was greatest. In the end our branch was functioning satisfactorily and the main office was back on schedule. To those employees that went through those difficulties, our heartfelt thanks.

GUARANTEED FUNDS

5 year term	12.4%
4 year term	13.9%
3 year term	2.4%
2 year term	6.5%
1 year & under	20.6%
Short Term	20.1%
Demand Chequing	4.8%
Demand Savings	19.3%

THE YEAR 1977

The reduction in interest rates over the past few months is having a very impressive effect on our Company's earnings for 1977. A continuation of current rates through the balance of the year virtually assures us of another record earnings year well above that reached in 1976. With our Branch costs substantially lower and the real estate beginning to pay its own way we are particularly enthusiastic about our Company's current prospects. Earnings to the end of March 1977, would, in fact, suggest a strong possibility of a dividend increase in September.



Profit

Statement of Income & Expenses to December 31, 1976 (With Comparative Figures for 1975)

Revenue

	<u>1976</u>	<u>1975</u>
Interest from Mortgages and other loans	\$ 1,860,890	\$ 1,076,590
Interest, Dividends and Gains from Investments	666,618	437,884
Fees & Commissions from Estates, Trusts and Agencies	31,075	31,640
Real Estate Commissions	56,241	82,454
	<u>\$ 2,614,824</u>	<u>\$ 1,628,568</u>

Expenses (See Note 2)

Interest on Deposits and Certificates	\$ 1,810,777	\$ 1,084,001
Salaries and Staff Benefits	232,810	155,517
Real Estate Commissions	34,940	61,531
Premises and Equipment Costs	18,079	7,803
Advertising and Promotion	50,229	25,839
Other	210,203	142,152
	<u>\$ 2,357,038</u>	<u>\$ 1,476,843</u>
Operating Income Before Taxes	\$ 257,786	\$ 151,725
Income Taxes — Current	22,611	16,826
Income Taxes — Deferred (See Note 3)	44,263	26,833
Net Operating Income	<u>\$ 190,912</u>	<u>\$ 108,066</u>

Statement of Retained Earnings

Balance at beginning of year	\$ 366,656	\$ 366,235
Net Profit for the year	190,912	108,066
	<u>\$ 557,568</u>	<u>\$ 474,301</u>
Amortization of incorporation costs		16,200
Dividend on capital stock	109,955	91,445
Balance at end of year	<u>\$ 447,613</u>	<u>\$ 366,656</u>

Balance Sheet

Assets

	<u>1976</u>	<u>1975</u>
Bank Deposit Receipts & Cash	\$ 1,896,017	\$ 1,223,524
Securities at cost (See Note 1)		
Canada & Provincial Bonds	1,251,041	538,839
Municipal and Corporate Bonds	3,392,089	3,322,552
Stocks in Canadian Companies	1,181,954	1,140,816
Wholly Owned Subsidiary	300,000	300,000
Mortgages less reserve (See Note 3)	18,384,273	12,040,255
Personal Loans	152,825	113,884
Secured Loans	198,501	172,640
Real Estate (See Note 5)	666,704	366,704
Other Assets	458,858	297,880
Real Estate Held for Sale	19,888	19,888
TOTAL ASSETS (See Note 4)	<u>\$ 27,902,150</u>	<u>\$ 19,536,982</u>

Edmonton, Alberta
April 11, 1977

We the undersigned certify that to the best of our knowledge and belief the financial statements of Heritage Savings & Trust Company at 31st December 1976 are correct and truly and clearly show the financial conditions of the Company's affairs at that date.

WILLIAM SEREDA
— President

GORDON CONWAY
— General Manager

As at December 31, 1976
(With Comparative figures for 1975)



Liabilities

	<u>1976</u>	<u>1975</u>
Guaranteed Funds		
Term Investment Certificates	\$ 19,494,626	\$ 13,135,691
Deposits	<u>5,976,125</u>	<u>4,098,023</u>
	\$ 25,470,751	\$ 17,233,714
Other Liabilities		
Deferred Income Taxes (See Note 3)	71,096	26,833
Income Tax Payable	17,611	4,767
Accounts Payable	45,228	45,148
Deferred Revenue	<u>11,409</u>	<u>21,422</u>
TOTAL LIABILITIES	\$ 25,616,095	\$ 17,331,884

Shareholders' Equity

Capital Stock		
Authorized: 500,000 Common shares of \$10 Par Value		
Issued and fully paid 183,182 shares	\$ 1,831,820	\$ 1,831,820
Retained Earnings	447,613	366,656
Contributed Surplus	<u>6,622</u>	<u>6,622</u>
TOTAL SHAREHOLDERS' EQUITY	\$ 2,286,055	\$ 2,205,098
	<u>\$ 27,902,150</u>	<u>\$ 19,536,982</u>



Herco Developments Ltd.

PROFIT

Revenue

Rental Income	\$139,995	\$ 54,929
Taxable Portion of Gain on Sale of Land	66,200	

1976

206,195

1975

54,929

Expenses

Property Taxes	34,653	18,227
Depreciation (See Note 6)	35,097	23,435
Mortgage Interest	45,373	38,557
Other	39,237	6,601

154,360
51,835

86,820
(31,891)

Operating Income before taxes (See Note 7)

BALANCE SHEET

Assets

Cash	43,923	(2,144)
Prepaid Taxes	3,932	2,583
Real Estate	871,592	1,073,664
Other Assets	25,729	25,729

945,176

1,099,832

Liabilities

Bank Loan		424,000
Mortgages Payable	576,550	425,241

576,550

849,241

Shareholders Equity

Capital Stock: 50,000 Com. Shares of \$10 P.V.
Issued and Fully Paid 30,000 Shares

Retained Earnings (deficit)	2,426	(49,409)
Capital Surplus	66,200	
Total Shareholders Equity	368,626	250,591

300,000
2,426
66,200
368,626
945,176

300,000
(49,409)
250,591
1,099,832

RETAINED EARNINGS

Balance beginning of the year	(49,409)	(17,518)
Net Income (loss) for the year	51,835	(31,891)
Retained Earnings (deficit)	2,426	(49,409)
Non taxable portion of Capital Surplus on sales of land	66,200	

(49,409)
51,835
2,426
66,200

(17,518)
(31,891)
(49,409)



Auditors' Report

Notes to Financial Statements at 31st December 1976

- Note 1.** The investment in stocks and bonds totalling \$5,825,084 is recorded at cost whereas, market value is \$5,677,358.
- Note 2.** The aggregate direct remuneration paid in 1976 to directors was \$30,000 whereas management officers of the company were paid \$107,634.
- Note 3.** Deferred income taxes of \$71,096 are due to the fact that the reserve for losses on mortgages taken for tax purposes amounts to \$280,078, whereas only \$130,000 has been provided for in the company's records.
- Note 4.** Trust Funds managed by the company at the year end amounted to \$4,250,903.
- Note 5.** Land held for future development costing \$666,704 includes land purchased in 1976 from Herco Developments Ltd. (a wholly owned subsidiary company) at a fair market value of \$300,000 which Herco Developments Ltd. purchased in 1974 for \$168,000.
- Note 6.** Herco Developments Ltd. depreciation has been recorded only to the extent of the joint venture.
- Note 7.** There is no income tax payable on the current years income of Herco Developments Ltd. as accumulated losses for prior years exceed this income.

We have examined the balance sheet of Heritage Savings & Trust Company as at December 31, 1976 and the statements of income and expenses and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, including verification of the cash, bank balances and securities of the Company.

We report that the financial statements are in agreement with the books of the Company, that all transactions that have come within our notice have been within the powers of the Company and that the assets held for customers trust accounts and guaranteed funds are kept separate from the Company's own assets and are so earmarked as to show the accounts to which they belong.

All our requirements as Auditors have been complied with and after due consideration we have formed an independent opinion of the position of the Company as at December 31, 1976 and we report that in our opinion and according to the best of our information and explanations given to us, the accompanying balance sheet and statements of income and expenses and retained earnings are properly drawn up so as to present fairly the financial position of the Company as at December 31, 1976 and the results of its operation for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. J. BAZIUK & COMPANY
Chartered Accountants

Edmonton, Alberta
April 11, 1977

Financial Highlights

Results

	1976	1975	1974
Income	2,614,624	1,628,568	1,465,238
Interest Paid	1,810,777	1,084,001	886,310
Other Expenses	546,261	392,842	463,979
Income Taxes	88,874	43,659	19,069
Net Income	190,912	108,066	95,880
Dividends	109,955	91,445	91,445

Position

Securities	7,236,055	5,953,335	4,618,393
Mortgages	18,501,738	12,105,680	8,236,780
Deposits	5,976,125	4,098,023	2,443,144
Certificates	18,896,955	12,838,495	9,221,510
Total Assets	32,611,636	23,555,508	16,555,637
Capital	1,831,820	1,831,820	1,828,910

Per Share

Net Income	1.04	.59	.52
Dividends60	.50	.50



1973	1972	1971	1970	1969	1968
160,863	865,472	616,737	412,429	201,055	72,994
575,045	386,006	287,644	194,607	62,409	6,000
414,376	234,188	125,625	88,279	52,981	28,449
54,529	78,386	54,430	48,173	22,673	7,394
116,913	166,892	149,038	86,370	62,992	31,151
87,772	53,988	26,501	12,987		
106,351	3,099,082	2,821,199	1,739,156	1,654,246	734,989
971,666	5,216,188	3,738,478	2,946,200	1,454,793	486,924
778,039	2,954,047	2,129,144	1,025,554	483,940	183,632
378,393	4,824,729	3,302,269	2,498,399	1,483,613	250,418
382,648	10,994,917	7,717,352	5,389,688	3,492,365	1,704,926
822,910	1,361,820	1,331,580	1,328,580	1,247,161	1,223,236
.64	1.22	1.12	.61	.51	.32
.50	.40	.20	.10		

Services

Chequing Accounts

Free chequing privileges and no service charges. 4% interest is added to the account half-yearly on June 30th and December 31st. Postage paid addressed envelopes can be provided for mail deposits.

Savings Accounts

Excellent interest rates are calculated on monthly balances and added to the account half-yearly on June 30th and December 31st. Withdrawals and deposits can be made by mail at no cost.

Deposit Receipts

Specially suited for short term deposits of \$5,000.00 or more for an investment period of the customers' choice. Competitive rates.

Guaranteed Investment Certificates

High rates of interest paid half-yearly on investments of \$500.00 or more for terms of 1 to 5 years. Interest can be paid by cheque or left to compound.

Personal Loans

Loans for home improvement, holidays, auto and a variety of other purposes are available at competitive rates.

Mortgages

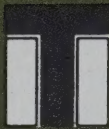
First and second mortgage loans on residential, commercial and industrial properties can be obtained at competitive rates. In certain situations up to 95% of appraised value of properties can be borrowed.

Real Estate Sales

Our real estate department will assist you in all aspects of purchasing a home or other property or selling any real estate that you may own. A guaranteed sales plan ensures the necessary funds when property is being sold and bought at the same time. The plan removes any risk as to sales price.

Estate Planning & Administration

Our trust department offers estate planning services at no cost or obligation to you. As executor, Heritage Trust will assume all estate responsibilities and make the necessary distributions in accordance with the instructions in the Will. An administration fee is charged commensurate with the duties performed.



Income Averaging Certificates

An ideal plan for distributing taxable income over a number of years rather than being subjected to income tax on the lump sum in one year. Principal and interest at competitive rates will be paid monthly, quarterly or half-yearly for a term of your choice.

Registered Retirement Savings Plans

Up to \$5,500.00 a year can be invested into this Plan each year at substantial income tax savings. Choose your own investments, our Guaranteed Investment Certificates or our Investment Fund. Contributions are made at the customer's discretion.

Registered Home Ownership Savings Plan

An excellent new plan for people not yet owning their own home. Each year up to \$1,000.00 can be placed in trust up to a total of \$10,000.00 and no tax is ever paid on these funds and the interest they earn if they are eventually used to purchase a home.

Investment Management

All record keeping and management of stock, bonds, real estate are offered. Income paid on a regular basis and statements of the portfolio and for income tax purposes are prepared. Investment advice can also be provided.

Corporate Services

Complete stock transfer and bond trusteeship services. Looking after shareholder records, dividends, notices of meetings, scrutineering, processing coupons, redemptions, conversions, are some of the functions that can be done for companies, churches, and other organizations.

Deferred Profit Sharing Plans

A very useful and effective plan for key employees providing for future benefits with good incentives. Contributions are tax deductible.

Travellers Cheques

A safe way to take a vacation at nominal expense. Cheques are easily negotiated and can be recovered if lost or stolen.

